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Paying off mortgages into retirement may make sense, advisors say

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Paying off financial obligations into one's golden years may sound less than ideal, but advisors say it all depends on the type and cost of the debt.

Just over one-quarter of self-described retirees with investable assets are still paying off a mortgage and a similar number reported trying to pay down existing credit card debt, according to a recent Nationwide survey.

Noah Damsky, CFA and founder of Marina Wealth Advisors in Los Angeles, said he views mortgages as a "good debt" since they are backed by an asset.

"If that asset grows sufficiently to compensate for the cost of debt, then it can be a great investment," he said.

Andre Jean-Pierre, the founder of Aces Advisors in New York, said his clients on average continue to make mortgage payments for about seven years into retirement. While these lingering mortgages present financial challenges, the inflation hedge of long-term home ownership makes it a net positive.

Damsky said he has clients with over $1 million in mortgage balances at less than 3%. In these cases, "the last thing they want to do is pay it off sooner," he said. Another client of his just purchased a home with over 6% interest rate and is now accelerating payments with an extra month payment each year to save on interest expense.

Andrew Herzog, a wealth advisor at The Watchman Group in Plano, Texas, said some of his clients still pay off mortgages into retirement, but these are generally second homes, not primary residences.

"The interest rate they secured years ago is so low that they had no motivation to pay it off early," he said.

Tammy Wener, the co-founder of RW Financial Planning in Lincolnshire, Illinois, said for her clients, the majority of these obligations involve mortgage debt at meager interest rates on homes that have significantly increased in value. One of her client couples in their late 70s is comfortable with their mortgage debt because they have the income to pay it and own treasury bills earning a higher interest rate. Meanwhile, another client decided to pay down the additional

principal in the last few years before early retirement.

"They felt strongly about not having debt in retirement, even if that meant less cash would be available for extras such as travel," she said. "Two very different approaches."

Robin Hovis, financial advisor at LPL Financial in Millersburg, Ohio, said clients may want to continue building their portfolios if the rate of growth or earnings on their investments is greater than the rate of interest they are paying on their debt.

Too many people feel being "debt free" is a retirement goal, said Nicholas Bunio, CFP at Retirement Wealth Advisors in Downingtown, Pennsylvania, when what they should be focusing on is having enough assets to last their retirement.

However, Damsky said all debt is not created equal. He said he considers credit card debt as "bad debt" since it's not backed by an asset.

"It's expensive interest that only puts you in a bigger hole every day," he said.

Making the elimination of even small amounts of this sort of high-interest, unsecured debt is key to clients being able to fully enjoy their retirement income instead of committing it to repayments, Jean-Pierre said.

"With the fixed income nature of most retirement plans, unexpected expenses or financial downturns can easily create a snowball effect of debt," he said. "During your working years, you have the opportunity to earn more income to offset these payments, but in retirement, every dollar counts and should be working for you."

The survey, conducted by The Harris Poll for Nationwide in January, garnered responses from 564 retired investors with investable assets of $10,000 or more and found that 22% were worried about being able to afford their monthly bills after deciding to stop working.

Advisors said clients sometimes use reverse mortgages to generate additional income in retirement when they're worried about cash flow shortages.

Herzog said this "isn't free money," but a loan in which the borrower does not have to make regular payments. Instead, the lender gives the homeowner a monthly check that comes from the homeowner's equity in the house. Over time, the debt grows as the client owns less and less of the home. The loan is ultimately repaid upon the sale of the home.

"A reverse mortgage can be attractive if you don't plan to leave the home to any heirs and the sale proceeds will be enough to pay off the debt," he said. "Ideally you would slowly take the equity out of the home over time and live off of it."

While reverse mortgages can be a helpful tool for some retirees, Jean-Pierre said they're not a one-size-fits-all solution. He said they encourage clients to consider their loved one's wishes and the potential effect on their desire to give their residence to the next generation.

Hovis said reverse mortgages should be the last resort to avoid personal bankruptcy or financial dependency on others in retirement.

"Too often the heirs are not told about the reverse mortgage, and are therefore expecting the value of the home to be part of their inheritance, only to find that this asset has been largely consumed by their parents," said Hovis.